

Message Text

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ACTION AF-08

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R 181405Z MAY 76

FM AMCONSUL CAPE TOWN

TO SECSTATE WASHDC 5218

INFO AMEMBASSY PRETORIA

AMCONSUL JOHANNESBURG

AMCONSUL DURBAN

UNCLAS CAPE TOWN 0605

E.O.11652:N/A

TAGS: EGEN,ETRD,EFIN,SF

SUB: BER FORECAST SEES NO ECONOMIC UPTURN IN 1976

SUMMARY. THE BUREAU FOR ECONOMIC RESEARCH(BER)AT UNIVERSITY
STELLENBOSCH IN QUARTERLY REPORT RELEASED MAY 17 PREDICTS
"NO UPSWING" IN SOUTH AFRICAN ECONOMY DURING 1976. REPORT
FORECASTS 1 PERCENT INCREASE IN REAL GDP AND, SINCE TERMS
OF TRADE NOT EXPECTED IMPROVE, DECLINE GNP OF 2.5 PERCENT.
PREVIOUS REPORT ISSUED IN JANUARY HAD FORECAST REAL GDP GAIN
OF 2 PERCENT. DEFICIT ON CURRENT ACCOUNT
OF BALANCE OF PAYMENTS ESTIMATED AT R1.2 BILLION. END SUMMARY.

1. REPORT NOTES THAT R1.2 BILLION ESTIMATE FOR CURRENT ACCOUNT
DEFICIT IS UP FROM PREVIOUS ESTIMATE OF R800 WHICH GROSSLY
UNDERESTIMATED DEFICIT ON SERVICE ACCOUNT OF THE CURRENT ACCOUNT.
REPORT CONCLUDES THAT THIS DEFICIT,PLUS LARGE SHORT-TERM
LOANS ON CAPITAL ACCOUNT WHICH WILL HAVE TO BE REDEEMED OR
CONVERTED,MEANS THAT NEED FOR FOREIGN CAPIYAL WILL REMAIN VERY
HIGH DURING 1976. REPORT SAYS RECENT SALARY INCREASES IN
PUBLIC SECTOR,TOGETHER WITH POSSIBLE ADDITIONAL INCREASES
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IN JANUARY 1977, WHILE A SMALL PART OF OVERALL WAGE BILL,

HAVE CREATED "PSYCHOLOGICAL CLIMATE"
WHICH MAY STIMULATE NEW SALARY DEMANDS IN PRIVATE SECTOR AND
LEAD TO INCREASED CONSUMPTION EXPENDITURE.

2. REPORT IS ACCOMPANIED BY "A HYPOTHETICAL 1976/77 BUDGET"
(BY A MINISTER WHOMDIT NOT HAVE TO BE DIPLOMATIC) IN WHICH BER
DIRECTOR J.L.SADIE MAKES A NUMBER OF BLUNT OBSERVATIONS.
RECOUNTING DECLINE IN TERMS OF TRADE SINCE 1974, SADIE SAYS
COUNTRY IS POORER NOW THAN IT WAS THEN AND HAS BEEN LIVING
BEYOND ITS MEANS BY BORROWING FROM ABROAD. HE SAID COUNTRY
COULD NOT CONTINUE SUCH COURSE INDEFINITELY AND ONLY ALTERNATIVE
TO CONSUMING FOREIGN EXCHANGE RESERVES WAS TO REDUCE CONSUMPTION
LEVELS. WHILE INFLATION RATE DECLINED FROM 15 PERCENT DURING
JANUARY 74-75 TO 11.5 PERCENT FOR PERIOD MARCH 75-76, SADIE
SAID THIS MUCH TOO HIGH AND CALLED FOR REDUCTION TO 6 PERCENT
DURING NEXT 12 MONTHS AND TO 3 PERCENT IN FOLLOWING YEAR.
SADIE CALLED FOR NO FURTHER PUBLIC SECTOR WAGE INCREASES,
RESTRAINT IN PRIVATE SECTOR, REFORM OF TAX LAWS TO RAISE
COMPANY TAX TO 45 PERCENT AND REDUCE HIGHEST PERSONAL TAX
RATE TO 50 PERCENT, AND FORMATION OF A SELECT COMMITTEE OF
GOVERNMENT AND OPPOSITION MEMBERS TO ENSURE THAT INCREASED
DEFENSE EXPENDITURES ARE CARRIED OUT IN MOST EFFICIENT MANNER.

COMMENT. REPORT CONTAINED NO RPT NO STARTLING NEW STATISTICS
OR CONCLUSIONS. PERHAPD ITS MOST SIGNIFICANT ASPECT IS FELT
NEED TO DELIVER SERMON ON ECONOMIC FACTS OF LIFE VIA THE
"HYPOTHETICAL BUDGET SPEECH" WITH IMPLICATION THAT ACTUAL
BUDGET SPEECH LAST MARCH MAY HAVE BEEN INSUFFICIENTLY CANDID.

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